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ABSTRACT

Small and mid-sized businesses must change their production and service delivery methods if they are to remain competitive in a global economy. According to businesspersons, service providers, and employees who participated in 18 focus groups in 10 cities throughout the United States, businesses are being forced to change their ways of doing business by many factors, including the following: economic downturns, increased competition, customer demands, developments in technology, new regulations, labor shortages, and an increasingly diverse work force. The focus group participants noted three levers for changing how goods and services are produced and/or delivered: technology, work processes, and people. The following actions can increase the likelihood that change efforts will be successful: start with a strategic plan; build support among all key stakeholders; be creative in seeking information/assistance; involve all employees in the change process; train workers in every aspect of company operation; keep employees informed about all changes; and follow through on all commitments. The following are ways of gaining employee involvement: hold meetings with all workers before starting the change effort, solicit employees' views, have an open-door policy or use other mechanisms to encourage communication between employees and management, and report both the good and bad news. (MN)

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NATIONAL WORKFORCE ASSISTANCE COLLABORATIVE

WORKFORCE BRIEF #1

PREPARED BY THE NATIONAL ALLIANCE OF BUSINESS

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Staying Competitive

How small and mid-sized companies are meeting the challenge of a global economy

Introduction

The challenge for small and mid-sized businesses is to remain competitive – and profitable – in today's environment. In order to meet this challenge, small and mid-sized businesses are having to change what they produce and/or how they produce it.

To learn more about the "how" part of this equation – how companies are changing their work processes in the face of an increasingly global economy – the National Workforce Assistance Collaborative conducted a series of 18 focus groups with employers, employees, and service providers from across the country. They told us:

- Why small and mid-sized companies are making changes,
- What changes these companies are making, and
- How small and mid-sized companies can change most successfully.

This brief was developed based on 18 focus groups that the *National Workforce Assistance Collaborative* conducted in February and March of 1994: seven with businesses, six with service providers, and five with employees. Sessions were held in Atlanta; Baltimore; Chicago; Cleveland; Dallas; Detroit; Los Angeles; New Brunswick, New Jersey; Washington, DC; and Westmoreland, Pennsylvania.

Why Change?

Companies are driven by the bottom line. They change in order to stay in business and increase their profits. Most small and mid-sized business owners are too busy keeping their companies going to see much beyond their next order. In the end, most of these companies change when it is imperative – when they are in the midst of a crisis and their backs are up against a wall. As one employee put it, "crisis overcomes resistance to change."

According to our focus group participants, the trigger that forces small and mid-sized businesses to change can be any one of a number of things:

Economic Downturns

Changes in the economy have a profound effect on small and mid-sized companies. Many companies that produce luxury goods have no market in times of recession, while those producing low-cost items frequently have to cut their margin even closer to the bone.

Increased Competition

The trend toward a progressively more global economy is increasing the number of competitors American firms have to face. For some companies, the need to focus on the efficiency of the production process is a completely new phenomenon. The president of a Maryland newspaper noted that his company, and others like it, had functioned as virtual monopolies for decades. Few companies can still afford to be complacent about their products or their customers.

Customer Demands

Small and mid-sized companies answer to two distinct – and very different – customer groups.

- **Individuals**. Today's purchasers are demanding a greater variety of higher quality products and services, produced both more quickly and more cheaply.
- **Companies**. Many companies are putting heavy demands on their suppliers. They too are insisting on customization, high quality, low cost, and quick turn-around. In addition, some are requiring their suppliers to take particular training courses and/or adopt particular quality processes. More and more, ISO 9000 certification (a documented quali-

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ty assurance process) is becoming a requirement for participation in U.S., not just European, markets.

Developments in Technology

When one company in an industry acquires a new technology, it is blazing a trail. Soon, however, all of the other companies must acquire similar technologies just to stay in the game.

New Regulations

Every government mandate – whether related to the environment, health and safety, personnel, or some other field – places new requirements on businesses. For small businesses, just finding out what needs to be done and maintaining the requisite documentation can be a significant challenge. Making the changes necessary for compliance can be overwhelming.

Labor Shortages

Changes in the marketplace and advances in technology have made it difficult for some industries to attract and retain qualified employees. Companies in these industries are looking for ways to make their workplaces more attractive to the skilled individuals they need.

Increasingly Diverse Workforce

Increasing numbers of women, immigrants, and minorities are entering the workforce, and a disproportionate number of them are finding jobs in small and mid-sized businesses. These companies have to find new ways to manage employees in order to reap the benefits diversity can bring, rather than just bearing its associated costs.

What Changes?

Focus group participants noted three levers for changing the "how" of production and service delivery. Companies can purchase new technology, change their work processes, and/or augment the skills of their employees.

Technology

Technology can be either a *cause* of change, or a *response* to changing conditions. If a company is not ahead of the pack, it will be acquiring new technologies just to stay in the game. At one time, technologies such as external and internal electronic data interchanges, numerically controlled machine tools, and computer-assisted design and manufacturing machines were relatively rare in small and mid-sized companies. Now, many of these companies are finding that they must make large investments in technology in order to compete.

Many companies are establishing teams to improve work processes. One business reports saving literally hundreds of thousands of dollars through 35 quality improvement teams.

Work Processes

In their quest to produce "more, better, faster, cheaper," many businesses are changing *the way* they do their work, flattening or eliminating hierarchies and streamlining their processes. Work process changes encompass many of the activities referred to as "high performance work practices," and "quality improvements." These changes frequently include efforts to involve customers in identifying a company's strengths and weaknesses.

Businesses are looking at total quality management and high performance work practices as ways to improve the quality of their products, keep costs as low as possible, and provide value to their customers.

Focus group participants identified a number of work process changes their companies have undertaken, including:

- **Reengineering**. Companies looking for quantum gains in quality or productivity engage in "reengineering" – analyzing all of their core business processes and making radical changes in their operations.
- **Process improvements**. Process improvement efforts are less dramatic. These efforts require companies to look at particular production processes and find ways to fine tune them.
- **Employee empowerment**. Many companies are turning to their employees for help in restructuring. Some are designing systems to gain employee input, while others are turning to self-managed work teams.

People

No changes – technology or work processes – can be successful if a company ignores its employees. Technology is only as productive as the people who run it, and restructuring efforts can only succeed if employees are prepared to implement the new processes. Employees that once worked in isolation, and were told not to think, are not suddenly able to improve a company's productivity and the quality of its products – *they need training* to work in teams and suggest improvements, as well as to stay up-to-date with new technologies and work processes.

Employees can be the key to a company's change efforts, even without technology or work process changes. Some companies are training their employees to be more efficient, analytical, and customer oriented. Others are turning to "cross training" – training employees to perform a number of jobs and/or work on multiple machines – to give the companies the flexibility they need to respond to a changing environment.

Change How?

For small and mid-sized companies, the difficulties associated with change are exacerbated by both a lack of information – knowing what to do and how to do it – and a lack of resources – having the time or the money to devote to a change process. At the same time, however, there are some advantages to their size: small and mid-sized companies may find it easier to develop a common vision and a shared purpose throughout their organizations.

Employers and employees already engaged in the process of change suggested a number of steps small and mid-sized companies can take to improve the likelihood that their change efforts will be successful. They should:

- ✔ **Start with a strategic plan** and a clear vision of where the company is heading. While it is difficult for small and mid-sized businesses to find the time to plan, successful companies know where they are headed and develop a strategy for getting there. Companies need to plan both the change process and the outcomes they are seeking. This way, they can measure progress along the way and make any necessary adjustments in strategy.
- ✔ **Build support among *all* of the key stakeholders**, including management, supervisors, employees, unions, shareholders, and prime customers. These stakeholders need to understand both where the company is going and how it intends to get there. Companies should also find and encourage "champions of change," individual managers or workers who embrace the changes being made and can serve as visible advocates for the process.

  To generate employee buy-in, the company should assure employees that they will have a place in the new company and will receive any training they might need to work within the new work environment. This should help reduce employees' natural resistance to and fear of change. The company should also make clear to employees "what's in it for them." This may be the salvation of the company and continued employment, or some kind of profit-sharing system.

  Companies may have to pay particular attention to building support among first level supervisors. These supervisors often *are* the company for front-line workers, and they can make or break a company's change effort.
- ✔ **Be creative in seeking information and assistance**. Information on making changes in a company is available through trade associations, chambers of commerce, and private industry councils – some for little or no cost. Businesses can also seek assistance and advice from community colleges and universities, manufacturing extension centers, and small business development centers, as well as consultants.

  Other small and mid-sized businesses facing similar challenges can be a great source of advice. Businesses should seek out company forums and similar networking opportunities where they can meet and exchange information with other small firms. Businesses should also consider sending their employees to other work sites to look at best practices. Such "benchmarking" trips should include both management and workers, so that individuals at all levels of the company have the opportunity to learn from successful change processes in other companies.
- ✔ **Involve all employees in the change process**. It is not enough to gain employees'

Some Methods for Gaining Employee Involvement

- ❑ Hold meetings with all workers prior to starting the change effort.
- ❑ Communicate the vision, the intended results, and the process for getting there.
- ❑ Ask employees for their views.
- ❑ Schedule regular meetings for workers to talk with management.
- ❑ Have an open-door policy or use other mechanisms to encourage employees to communicate directly with management.
- ❑ Tell the good news as well as the bad news. Explain failures to implement or follow through on suggestions.

support for change: they must be *involved*. Opportunities for employee participation should be created wherever practicable. Front-line workers are frequently the best source of ideas, since they are closest to both the production process and the customers.

In unionized companies, the union's support and involvement is essential to the change effort. Unions serve both to protect employees' interests and to give voice to their ideas and concerns. In many cases, unions can facilitate a company's change effort by providing a vehicle for employee involvement.

✔ **Train workers on everything**, from techniques for participating in the change process, to using new technologies, to applying new skills on the job. Companies should consider a variety of methods for training their employees. Many individuals do not learn well in a classroom environment. Companies may need to look at alternative, "hands-on" training methods if they are to be successful in their change efforts.

Training does not have to be costly or complex. In some companies, employees have determined their own training needs and have trained each other. Many service providers have found government grants or other funding sources to subsidize training costs. For some companies, such training methods as self-paced workbooks, computer-assisted training, and televised courses have proven very cost-effective. Some companies even joined "training consortia" and shared the costs of training development and delivery among a number of organizations.

✔ **Communicate, communicate, communicate**. Information sharing should not end after the initial kick-off meeting. Managers need to keep employees informed about what is going on in the company and how the change process is affecting performance. As one business owner said, "we used to operate on a need-to-know basis; that has changed."

> "If you tell your employees you are going to do something, do it. If you can't do it, tell them why you can't. Be very up front about your actions."
>
> *–Business focus group participant*

Communication cannot be solely top down. Workers need to keep managers informed about how the change process is playing out on the plant floor and how customers are reacting to the changes.

✔ **Follow through on all commitments**. Management must be committed to the change process. Enough resources – *time and money* – should be allocated to the effort to ensure its success. Employees' suggestions must be followed up on, or managers should explain why the suggestions are being ignored. Finally, promises must be kept and reality must follow rhetoric. Employees expressed frustration when their leaders did not "walk the talk."

For a change effort to pay off with improved business results, it is important that companies work on those things that will be noticed and add value to customers. A Maryland quality consultant noted that understanding what will make a discernible difference in the eyes of the customer can provide a focus to companies' improvement efforts.

Terri Bergman and Barbara Kaufmann
January 1995

The *National Workforce Assistance Collaborative* builds the capacity of the service providers working with small and mid-sized companies in order to help businesses adopt high-performance work practices, become more competitive, and ultimately advance the well-being of their employees. The Collaborative was created with a $650,000 cooperative agreement grant from the ***Department of Labor*** to the ***National Alliance of Business***. Current partners on the project include the Institute for the Study of Adult Literacy at Pennsylvania State University, the Maryland Center for Quality and Productivity, and the National Labor-Management Association. The Collaborative provides assistance in four areas: employee training, labor-management relations, work restructuring, and workplace literacy. For more information, contact Bernice Jones at the National Alliance of Business, (202) 289-2915.

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